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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JANUARY 5, 2001

APPLICATION OF

VIRGINIA GAS STORAGE COMPANY

CASE NO. PUE000282

For an Annual Informational Filing

ORDER ADOPTING RECOMMENDATIONS  
AND DISMISSING PROCEEDING

On May 30, 2000, Virginia Gas Storage Company ("VGSC" or "the Company") filed its Annual Informational Filing ("AIF") for the twelve months ending December 31, 1999.

On November 30, 2000, the Staff filed its report in the captioned matter which included a financial and accounting analysis. Staff noted in its report that it had used an 11.5% cost of equity for illustrative purposes in its financial analysis. It explained that the Company and Staff had agreed to use 11.5% as part of this AIF since the rates in Company's application for a certificate of public convenience and necessity (Case No. PUE940078) were based on estimates of revenues and costs, including a cost of capital that incorporated a return on equity rate of 11.5%. The Staff reported that it used the consolidated capital structure of Virginia Gas Company ("VGC"), VGSC's parent, in its financial analysis because VGC is the primary entity that has obtained and

allocated capital for VGSC's development. This consolidated capital structure, together with an 11.5% cost of equity, produced an overall cost of capital of 10.641% for the 1999 test year.

Further, the Staff noted that there is a case now pending before the Commission involving a proposed merger between NUI Corporation ("NUI") and VGC (Case No. PUA000079). Staff reported that if the pending merger is approved with NUI, it will need to re-evaluate the capital structure appropriate for setting rates for the Company. It stated that, assuming NUI becomes the entity that issues debt on behalf of VGSC, NUI's consolidated capital structure may be the appropriate capital structure to use in setting VGSC's rates. The Staff requested that the Company reflect information required by Schedules 1, 2, and 3 for the test year and four prior fiscal years, as required by the Commission's Rules Governing Utility Rate Increase Applications and Annual Informational Filings ("Rules"), 20 VAC 5-200-30, adopted in Case No. PUA990054.

In its accounting analysis, the Staff noted that it had to revise certain of the Company's per books and fully adjusted accounting data. Staff reported that, on a jurisdictional per books basis, VGSC earned a return on year-end equity of 8.32%, and on a fully adjusted basis, the Company earned a return on equity of 9.19%. Based upon these operating results, Staff

proposed that no action be taken to revise the Company's rates at this time.

On December 18, 2000, the Company filed its response to the Staff's report. In its response, VGSC requested that it be allowed to file its AIF for the twelve months ending December 31, 2000, by May 31, 2001. It noted that the Staff did not object to having VGSC file its AIF for the twelve months ending December 31, 2000, by May 31, 2001, to enable the Company to provide Staff with audited financial information with which it could evaluate VGSC's financial and operating results.

NOW, UPON consideration of the Company's application, the Staff report, the Company's response thereto, and the applicable statutes, the Commission finds that the Staff's recommendations found in its report are reasonable and should be adopted. Specifically, Staff's recommendations that the Company file Schedules 1, 2, and 3 for the test year and four prior fiscal years are reasonable and should be accepted. We further find it appropriate to grant the Company's request to file its AIF for the twelve months ending December 31, 2000, by no later than May 31, 2001, so that audited financial and operating data may be available to evaluate VGSC's fiscal and operational condition.

Accordingly, IT IS ORDERED THAT:

(1) Consistent with the findings made herein, the recommendations set out in the Staff's November 30, 2000, report are hereby adopted.

(2) If VGSC does not seek rate relief, the Company shall file its next AIF, utilizing audited financial and operating results for the year ending December 31, 2000, by no later than May 31, 2001.

(3) There being nothing further to be done in this matter, this case shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein placed in the Commission's file for ended causes.